Minutes of the meeting of the Audit and Compliance Committee of the Board of Directors of the Cook County Health and Hospitals System held Tuesday, March 6, 2012 at the hour of 9:30 A.M., at 1900 West Polk Street, in the Second Floor Conference Room, Chicago, Illinois.

I. Attendance/Call to Order

Chairman Muñoz called the meeting to order.

Present: Chairman Luis Muñoz, MD, MPH and Directors Benn Greenspan, PhD, MPH, FACHE and Heather O'Donnell, JD, LLM (3)

Board Chairman Warren L. Batts (Ex-Officio Member) and Gerald Bauman (non-Director Member)

Absent: None (0)

Additional attendees and/or presenters were:

Cathy Bodnar – System Chief Compliance Officer
John Cookinham – System Interim Chief Financial Officer
Scott Ellis – System Information Security Officer
Deborah Fortier – Office of the System General Counsel
Pat Hagan – McGladrey & Pullen, LLP
Tim Heinrich – McGladrey & Pullen, LLP
Daniel Howard – System Chief Information Officer
Pat Kitchen – McGladrey & Pullen, LLP
Deborah Santana – Secretary to the Board
Thomas Schroeder – System Director of Internal Audit

II. Public Speakers

Chairman Muñoz asked the Secretary to call upon the registered speakers.

The Secretary responded that there were none.

III. Report from System Corporate Compliance Officer (Attachment #1)

A. Activity Report

Cathy Bodnar, System Corporate Compliance Officer, presented the Activity Report regarding the following subjects: Quarterly Statistics – Reactive Issues; Breach Reporting; Sanction Screening Checks; Fostering Transparency (publicly through our Website); Providing Compliance Education (internally to our Employees); and Strengthening our Infrastructure. Scott Ellis, System Information Security Officer, provided additional information regarding the subject of Breach Reporting. The Committee reviewed and discussed the information.

With regard to the update on Strengthening Our Infrastructure (containing the Corporate Compliance organizational chart), Ms. Bodnar noted that discussions are currently being held on the question of whether the position for the Unlawful Political Discrimination/Shakman Compliance Officer will be based downtown with the County administration.

IV. **Report from System Director of Internal Audit (Attachment #2)

A. Activity Report

Tom Schroeder, System Director of Internal Audit, reviewed the information provided on the 2012 Internal Audit Plan. The Committee reviewed and discussed the information.

V. Recommendations, Discussion/Information Item

A. Update from McGladrey & Pullen, LLP on FY2011 Audit activities (Attachment #3)

The following representatives from McGladrey & Pullen, LLP, provided an update on FY2011 Audit Activities: Pat Kitchen, Partner; Tim Heinrichs, Director; and Pat Hagen, National Managing Partner – State and Local Government. Included in the update and presentation was a letter to the Committee, which communicated certain matters related to the planned scope and timing of the audit of the System's financial statements as of and for the year ended November 30, 2011. The Committee reviewed and discussed the information.

VI. Action Items

A. Minutes of the Audit and Compliance Committee Meeting, January 17, 2012

Director Greenspan, seconded by Director O'Donnell, moved to accept the minutes of the Audit and Compliance Committee Meeting of January 17, 2012. THE MOTION CARRIED UNANIMOUSLY.

B. Any items listed under Sections V, VI and VII

VII. Closed Session Discussion/Information Items

A. **Report from System Director of Internal Audit

B. Discussion of Personnel Matters

Director Greenspan, seconded by Director O'Donnell, moved to recess the regular session and convene into closed session, pursuant to the following exception to the Illinois Open Meetings Act: 5 ILCS 120/2(c)(**1**), regarding "the appointment, employment, compensation, discipline, performance, or dismissal of specific employees of the public body or legal counsel for the public body, including hearing testimony on a complaint lodged against an employee of the public body or against legal counsel for the public body to determine its validity," and 5 ILCS 120/2(c)(**28**), regarding "meetings between internal or external auditors and governmental audit committees, finance committees, and their equivalents, when the discussion involves internal control weaknesses, identification of potential fraud risk areas, known or suspected frauds, and fraud interviews conducted in accordance with generally accepted auditing standards of the United States of America." THE MOTION CARRIED UNANIMOUSLY.

Chairman Muñoz declared that the closed session was adjourned. The Committee reconvened into regular session.

VIII. Adjourn

As the agenda was exhausted, Chairman Muñoz declared the meeting ADJOURNED.

Respectfully submitted,
Audit and Compliance Committee of the
Board of Directors of the
Cook County Health and Hospitals System

XXXXXXXXXXXXXXXXXXXXX
Luis Muñoz, MD, MPH, Chairman

Attest:

XXXXXXXXXXXXXXXXXXXXX
Deborah Santana, Secretary

ATTACHMENT #1

Corporate Compliance Report

Cathy Bodnar, MS, RN, CHC
Chief Compliance Officer

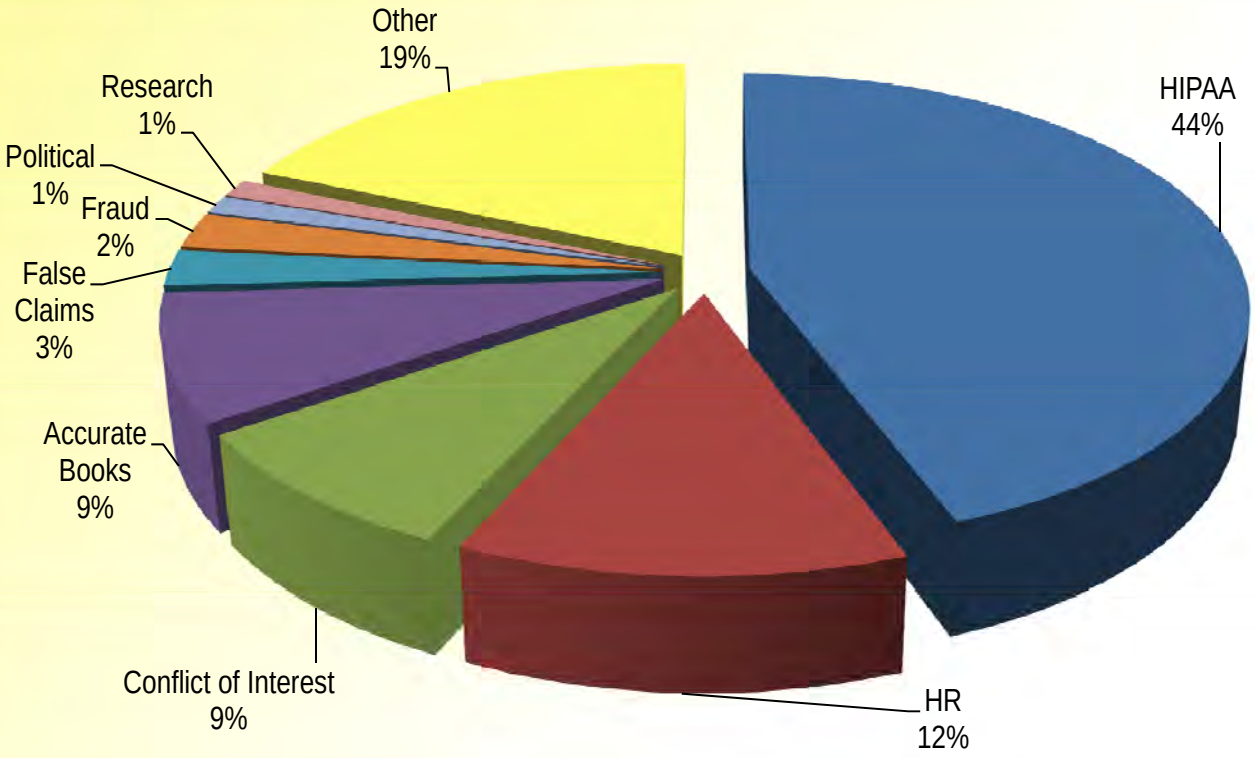
March 6, 2012

Objectives

- To present a brief overview of reactive activity
  - quarterly statistics on compliance issues.
  - CY11 breach statistics.
- To file annual sanction reports for employees and vendors.
- To report education and awareness activities
  - Publically via the Internet.
  - Internally through e-learning.
- To provide an update on the compliance department's infrastructure.

Quarterly Statistics – Reactive Issues

81 New Issues Opened in 1st Quarter FY 2012



Total Issue Count by Category
81 Issues in 1st Q FY12 +
15 Issues Carried Over from FY11

Privacy (HIPAA)	36 + 8
Human Resources	10
Conflict Of Interest	7
Accurate Books	7
False Claims	2
Healthcare Fraud	2 + 4
Political Activity	1
Research	1
Other	15 + 3

Breach Reporting

Total Number of Individuals Affected by
Breaches of Unsecured Protected Health Information – 32,371

"Unsecured"

- Protected Health Information (PHI) has been rendered unusable, unreadable, or indecipherable to unauthorized individuals.
  - Electronic – must be encrypted following the requirements set forth within the HIPAA Security Rule.
  - Paper, film, or other hard copy media has been shredded or destroyed such that the PHI cannot be read or otherwise reconstructed.

Notice

- ≥ 500 individuals
- < 500 individuals

Questions?

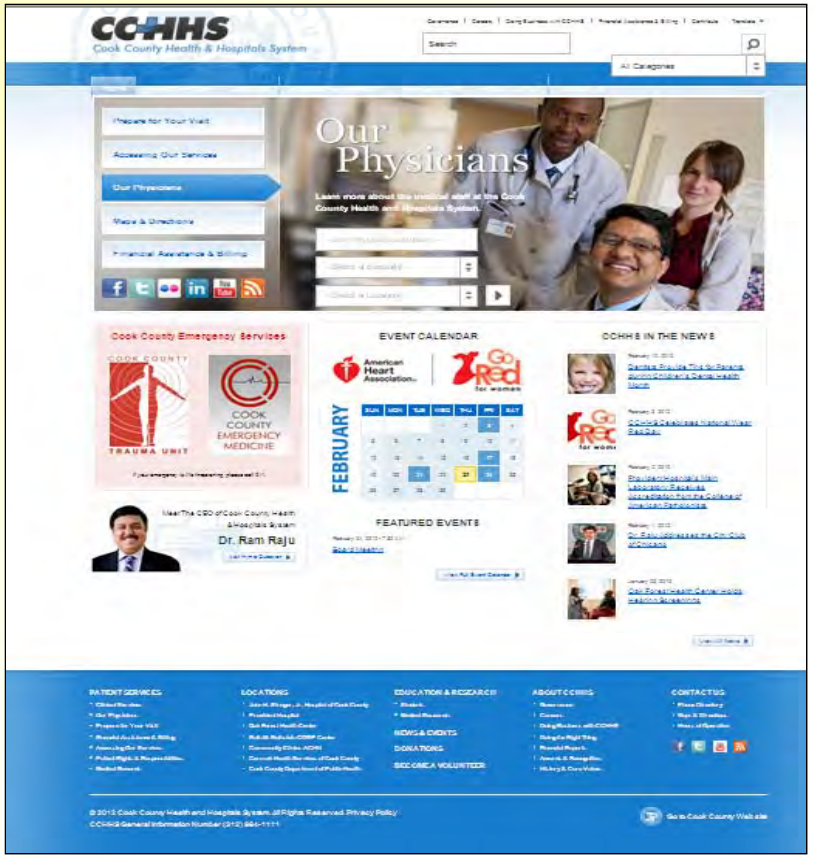
Sanction Screening Checks

No Exclusions Identified for Employees or Vendors

Questions?

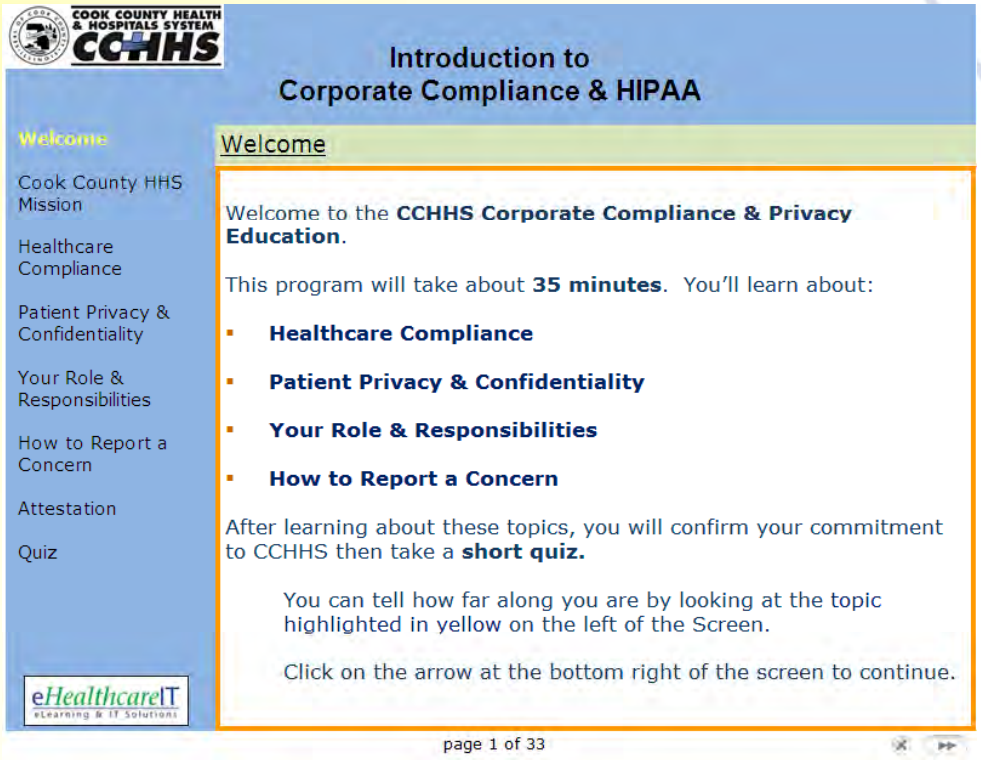
Fostering Transparency

Publically through our Website



Providing Compliance Education

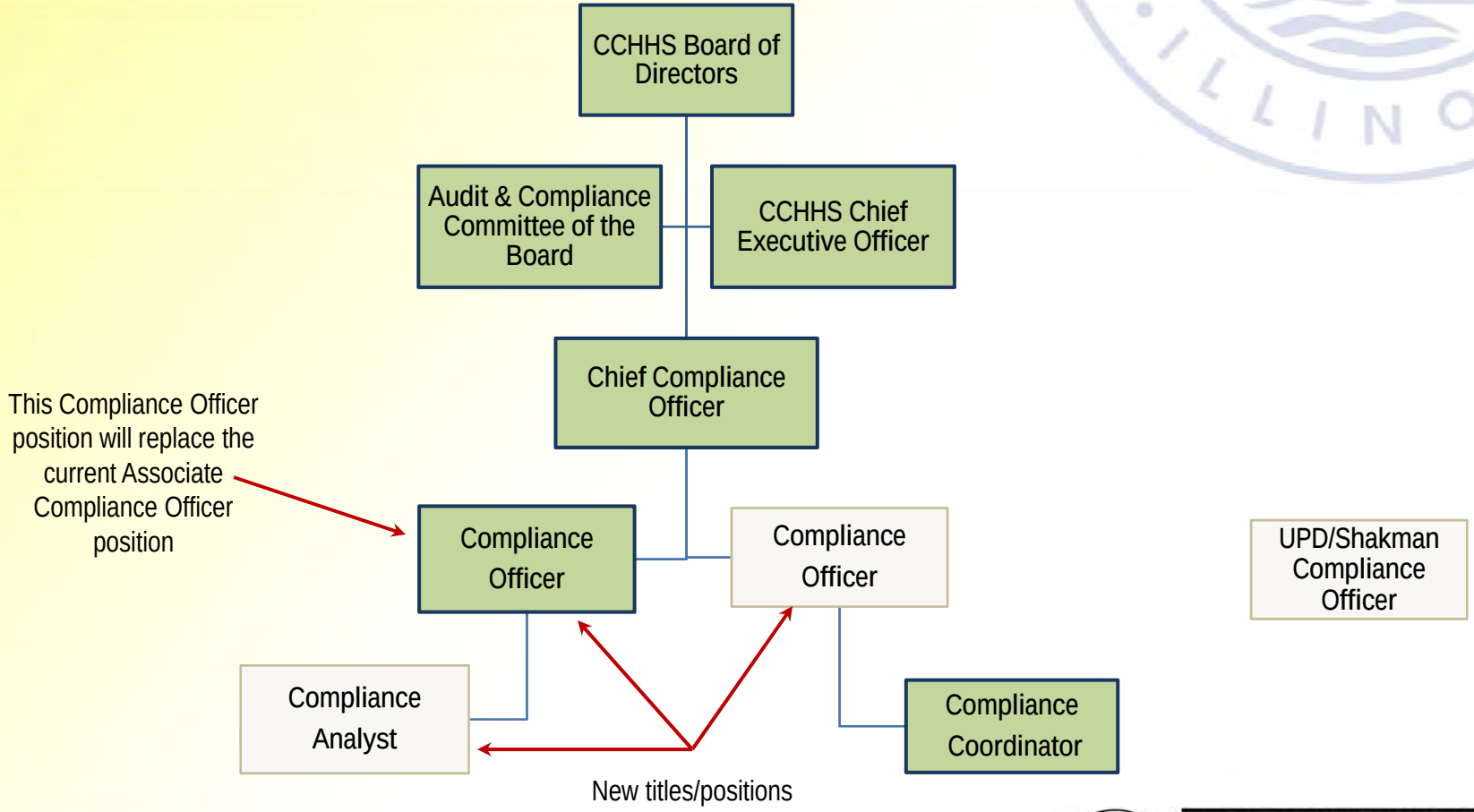
Internally to our Employees



Questions?

Strengthening Our Infrastructure

Building on a solid platform



Questions?

MARCH 6, 2012 REPORT
to the
AUDIT AND COMPLIANCE COMMITTEE
from the
CHIEF COMPLIANCE OFFICER

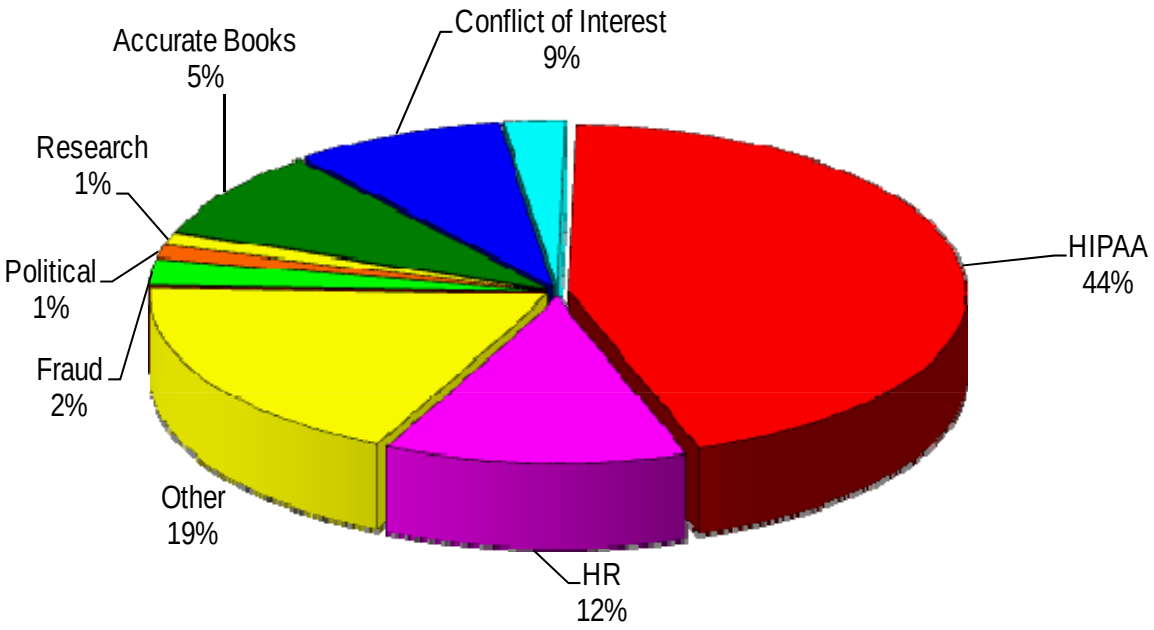
III A
ACTIVITY REPORT

COMPLIANCE ISSUES (REACTIVE)
BY CATEGORY

1st Quarter FY 2012 Statistics

12/01/2011 – 02/29/2012

81 New Issues Opened



Total Issue Count by Category

81 Issues from 1st Q FY 2012 + 15 Issues Carried Over from FY 2011

Privacy (HIPAA)	36 + 8	Healthcare Fraud	2 + 4
Human Resources	10	Political Activity	1
Conflict of Interest	7	Research	1
Accurate Books	7	Other	15 + 3
False Claims	2		

FY 2011 – Mandatory Reporting of Breaches of Unsecured Protected Health Information

Total number of individuals affected by breaches of unsecured protected health information – 32,371

Activity Description	Activity Resolution Description	Individuals Affected by Breach
Notification by a previous vendor of a stolen laptop and stolen external hard drive that contained protected health information (PHI).	Lost hard disk of vendor (MedAssets) did have unencrypted, not password-protected PHI constituting a breach under HITECH. Notifications were made within required timeline.	32,008
Notified of the theft of a physician's backpack that contained protected health information (papers).	Confirmed unsecured paper PHI was in the backpack that was stolen. Patient notification letters were mailed. Physician was counseled.	168
Notification of 40 screening forms for a research project stolen from a research assistant's car. (161 notifications were required because we did not have an inventory of the forms that were stolen.)	Confirmed a breach of PHI related to paper loss did occur. Patient notification letters were sent. An amendment to the research protocol was required; guidance provided.	161
Notification of breach of PHI through texting a patient list to all the patients on the list.	Confirmed breach of PHI - patient name - in a text message. Discussed with staff. Patient notification sent.	24
Notification of inappropriate disclosure of PHI (another patient's PHI) in response to a legal subpoena.	Confirmed breach. Patient notification letters of Breach were mailed to 2-Cermak patients. Each letter was returned, re-mailed to other addresses, and returned again. After at least 2 attempts to each and no other addresses available, notification was abandoned.	2
Allegation that the Pharmacy gave a patient additional prescriptions to bring to the Pain Clinic staff.	Confirmed breach. Investigated and resolved by sending letter to two patients notifying them of the breach. Staff was counseled and re-educated.	2
Allegation of disclosure of Protected Health Information from Office for Civil Rights (OCR).	Allegation was substantiated. Determined that the nurse did not adequately safeguard a patient's privacy.	1
Allegation of HIPAA violation and unprofessional behavior by an attending consultant physician in the Emergency Department.	Confirmed breach, HIPAA violation substantiated. Department was provided with HIPAA refresher education. Letter sent to patient.	1
Allegation of a breach of Protected Health Information by a hospital attending physician. Medical history was reviewed with patient in the presence of two other people.	Confirmed breach. Medical Director counseled physician. HIPAA refresher provided to department. Letter mailed to patient.	1

Activity Description	Activity Resolution Description	Individuals Affected by Breach
Notification of the release of a patient's imaging results to another person without authorization.	Breach confirmed. Learned of breach through a patient complaint that PHI was shared with another person without her authorization. Patient notification sent.	1
Notification of lost pages of copies of a medical record in the US Mail.	Breach confirmed. Validated that pages of a patient's paper medical record were lost. Patient notification letter mailed.	1
Allegation of inappropriate disclosure of Protected Health Information - patient diagnosis placed in the return address of a patient mailing.	Breach confirmed; clinic name is the same as diagnosis and was used in the return address field. Re-educated area responsible. A new code was created for that clinic.	1

Work Plan Activity
Sanction Screenings: Employees and Vendors

Status: Annual project completed

Board Action: Review and File

Summary

- Identified through numerous regulatory references including the Department of Health and Human Services, Office of Inspector General, as an important component of a compliance program and a compliant organization.

- It is the policy of CCHHS to refrain from employing, contracting with, accepting orders, or purchasing items or services from sanctioned individuals or entities, identified through the sanction screening process.

- A sanction screening process applies consistent and reliable procedures to achieve compliance with Federal and State health care programs' prohibition on billing for any items or services provided, ordered, or prescribed by individuals or entities that are excluded from participation in such programs.

- The CCHHS process follows,
  - All employees and vendors are assessed during the on-boarding process.
  - Corporate Compliance, on a monthly basis, forwards a list of new employees to our external vendor, John Sterling Associates. New employees are added to the existing employee list and are screened against the OIG List of Excluded Individuals/Entities and the GSA Excluded Party List System which also includes the U.S. Department of the Treasury Specially Designated Nationals (SDN) List. The employees are also matched against the State of Illinois Provider Sanctions list. Each month, Corporate Compliance receives the results of the screenings.
  - On an annual basis a formal process occurs using a fresh download of all employees and CCHHS vendors. The executive summary of the results of the formal process are included in this report.

- Annual checks are necessary to exhibit due diligence to avoid harm to CCHHS.

John Sterling Associates

compliance screening of employees, physicians and vendors

February 8, 2012

Cathy Bodnar, MS, RN, CHC
Chief Compliance Officer
Cook County Health & Hospitals System
1900 West Polk, Suite 123 Rm 118
Chicago, IL 60612

Dear Cathy:

A review of Cook County Health & Hospital System employees was conducted by our office on February 7-8, 2012. These individuals were reviewed by checking for name matches against the OIG *List of Excluded Individuals/Entities* and the GSA *Excluded Party List System* which also includes the U.S. Department of the Treasury *Specially Designated Nationals (SDN) List*. As described below, they also were matched against the State of Illinois *Provider Sanctions* list.

Based on data we received on February 7, 2012, we reviewed 6,105 employees (after removing exact duplicates) for possible sanctions which could affect federal or state healthcare funding.

Disclaimer

Results may be affected by inaccuracies in the data you provide to us. Since the heart of the review is alphabetical matching, typographical errors, misspellings or omissions in your data can result in match failure. Errors of a similar nature occur in the federal or state databases as well. Federal or state databases also can insert records retroactively after our review is completed. Errors in record layouts of your data or federal or state data can negatively affect results. All these irregularities cause match failure and are beyond our control.

It is our policy that the client bears responsibility to provide us with data that is accurate with regard to spelling, date of birth, start date and other related information. We make no effort to review the accuracy of your data.

Accordingly, we do not accept responsibility for any matching failures resulting from erroneous data provided us by the client or by the federal or state government databases.

Review Techniques

Social Security Numbers were not requested for each employee to preclude any identity theft concerns. They are only requested on a case-by-case basis when absolutely necessary to confirm or clear a possible exclusion.

We utilize proprietary computer-assisted techniques comparing your data to the databases referenced below to generate possible matches to excluded parties.

The federal and sources of these data are described below. Recent copies of each list were downloaded from the internet and were prepared for matching using proprietary methods.

The OIG database contains names of over 48,000 persons sanctioned and excluded from federal healthcare reimbursement.

The GSA system is comprised of *Procurement/NonProcurement* and *Reciprocal* databases. Information on sanctions imposed on individuals and businesses by 53 other federal agencies is compiled in one location. This combined database is the source of non-healthcare exclusions which must also be taken into account by compliance programs. The GSA system lists over 9,000 individuals for non-healthcare exclusions.

The U.S. Department of the Treasury, Office of Foreign Asset Controls, maintains the *Specially Designated Nationals (SDN)* list. This list contains individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. It also contains non-country specific individuals, groups and entities such as known terrorists and narcotics traffickers. Under Executive Order (EO) 13224 issued by the President in 2001, there are certain prohibitions from doing business of any kind with over 4,000 people, organizations, and other entities that appear on this list. While we check your data for any possible matches to this list, we do not believe OIG has any real interest in this screening.

The State of Illinois *Provider Sanctions* list contained over 1,000 sanctioned persons and businesses. You may access this list online at http://www.state.il.us/agency/oig/download.asp .

When no match occurs, we assess that individual to be not excluded from federal or state healthcare programs.

When a possible match does occur, our analysts then review each possible match and perform any additional research as necessary to resolve each of these matches. We utilize various logical tests and inferences to assess the validity of the tentative match. The use of tests including comparisons of middle initials/names, dates of birth, Social Security Numbers (when requested), start dates, prior residence and other inferences permit us to assess whether or not those individuals are excluded from federal or state healthcare programs.

Findings

Our research developed 795 possible matches to employees affiliated with Cook County Health & Hospital System. After further review, we determined that none of these matches were positive.

The file, **Cook County Health & Hospital System Employee Screening Audit Trial,** shows our final assessments for all these employees. A CD hard copy of the Audit Trail is being mailed to you along with a signed original of this Executive Summary.

This Executive Summary has been emailed to you for early review.

Opinion Of Reviewer

Based on all the above information, procedures and techniques, and subject to the limitations discussed above, it is my professional opinion that there are no exclusions for all reviewed employees affiliated with Cook County Health & Hospital System.

These employees will continue to be screened for any new exclusions through our ContinueCheck® monthly rechecking service for the next 11 months as specified in our contract. Cook County Health & Hospital System also may send us a list of newly-hired employees each month to be included in this monthly rechecking. This service is included, at no extra charge, in our annual screening service fees.

Sincerely,

Brady Ballman
Vice President

John Sterling Associates

compliance screening of employees, physicians and vendors

February 3, 2012

Cathy Bodnar MS, RN, CHC
Chief Compliance Officer
Cook County Health & Hospitals System
1900 West Polk, Suite 123 Rm 118
Chicago, IL 60612

Dear Cathy:

A review of Cook County Health & Hospitals System vendors was conducted by our office on February 2-3, 2012. These vendors were reviewed by checking for name matches against the OIG *List of Excluded Individuals/Entities* and the GSA *Excluded Party List System,* and the U.S. Department of the Treasury *Specially Designated Nationals (SDN) List.* They also were matched against the State of Illinois *Provider Sanctions* list.

Based on the data we received on February 2, 2012, we reviewed 1,005 vendors (after removing exact duplicates) for possible sanctions which could affect federal or state healthcare funding.

Disclaimer

Results may be affected by inaccuracies in the data you provide to us. Since the heart of the review is alphabetical matching, typographical errors, misspellings or omissions in your data can result in match failure. Errors of a similar nature occur in the federal and state databases as well. Federal and state databases also can insert records retroactively after our review is completed. Errors in record layouts of your data or federal and state data can negatively affect results. All these irregularities can cause match failure and are beyond our control.

Therefore, we do not accept responsibility for any matching failures resulting from erroneous data provided us by the federal and state government databases.

While we attempt to compensate for misspellings, truncations and other errors in the data you give us, we also do not accept responsibility for any matching failures resulting from errors in your data.

Review Techniques

We utilize proprietary computer-assisted techniques comparing your data to the databases referenced below to generate possible matches to excluded parties.

The federal and state sources of these data are described below. Recent copies of each list were downloaded from the internet and were prepared for matching using proprietary methods.

The OIG database contains names of over 48,000 persons and over 2,100 organizations sanctioned and excluded from federal healthcare reimbursement.

The GSA system is comprised of *Procurement/NonProcurement* and *Reciprocal* databases. Information on sanctions imposed on individuals and businesses by 53 other federal agencies is compiled in one location. This combined database is the source of non-healthcare exclusions which must also be taken into account by compliance programs. The GSA system lists over 9,000 persons and over 3,000 organizations for non-healthcare exclusions.

The U.S. Department of the Treasury, Office of Foreign Asset Controls, maintains the *Specially Designated Nationals (SDN)* list. This list contains individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. It also contains non-country specific individuals, groups and entities such as known terrorists and narcotics traffickers. Under Executive Order (EO) 13224 issued by the President in 2001, there are certain prohibitions from doing business of any kind with over 4,000 people, organizations, and other entities that appear on this list. While we check your data for any possible matches to this list, we do not believe OIG has any real interest in this screening.

The State of Illinois *Provider Sanctions* list contained over 1,200 sanctioned persons and businesses. You may access this list online at http://www.state.il.us/agency/oig/download.asp .

When no match occurs, we assess that vendor to be not excluded from federal or state healthcare programs.

When a possible match does occur, our analysts then review each possible match and perform any additional research as necessary to resolve each of these matches. While some of these matches are close in name, if through our research it is clear that the two vendors are distinctively different, we assess them as "Similar yet distinctively different. Not Excluded" and can be found in our Audit Trail file. Matches that share the exact name or shortened form which need further commenting are listed below.

Our review developed the following matches to Cook County Health & Hospitals System vendors requiring further discussion:

Companies

Alliance Health Services Inc of Chicago, IL has a nearly identical name to a listed company, Alliance HealthCare Services and Med of Glen Ellyn, IL. An internet check indicates no connection between the two. Your vendor offers consulting services while the excluded party is a DME. We assess that this is not your vendor.

Phoenix Metal Products Inc of Freeport, NY has a name similar to a listed company, Phoenix Products Co of Terryville, CT. Your vendor is a manufacturing company of metal fabrication products for the medical and laboratory industries. The excluded party sell pool chemicals. We assess that this is not your vendor.

Universal Medical Inc of Foxboro, MA has a name nearly identical to two listed companies named Universal Medical, Inc. in Miami, FL and in Atlanta, GA. An internet check indicates no connection to either. Many unrelated companies have similar or even identical names. Further, a phone record search indicates the excluded Miami DME is no longer in business. For all these reasons, we assess that your vendor is not excluded.

One Word Vendors

There were a number of vendors in your data which are only one word. Generally, these are contractions of vendor names or acronyms of professional organizations. Among your “One Word Vendors”, **ComEd** was identified as possible match. We performed internet checks on each vendor’s address and determined the type of goods or services they provide Cook County Health & Hospitals System. In each case there is a clear difference between your vendor and the excluded party, so we assess that your vendor is not excluded.

Persons

Some of the possible matches were to individual persons. Whenever possible, we assess them based on comparisons of middle initials, tax numbers and other information available to us.

The remaining matches are to persons with addresses which differ from those of the excluded parties. When there is no other means of clearing these persons and there is no specific reason to believe they are actually excluded parties, it is our policy to characterize them as "Not Excluded".

We found no excluded persons in your vendor data.

The file, **Cook County Health & Hospitals System Vendor Audit Trail**, shows our assessments for each vendor. A CD hard copy of the Results file is being sent to you by U.S. Postal Service along with a signed original of this summary report.

This Executive Summary has been emailed to you for early review.

Opinion Of Reviewer

Based on all the above information, procedures and techniques, and subject to the limitations discussed above, it is my professional opinion that there are no exclusions for all reviewed vendors affiliated with Cook County Health & Hospitals System.

Sincerely,

Kirsten Ballman
Vice President

Work Plan Activity

Fostering Transparency

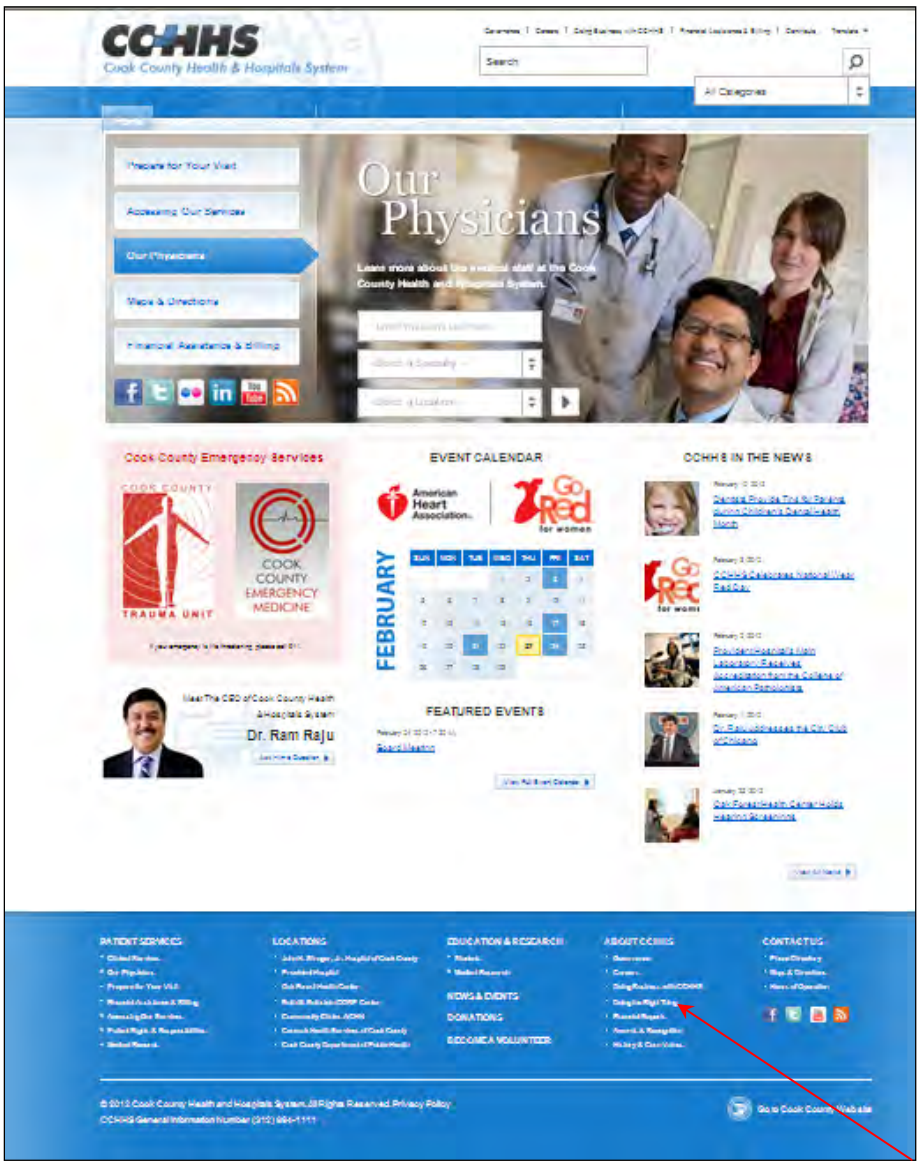
Status: Completed and ongoing

Board Action: No action required – awareness

Summary

- Built upon the CCHHS Corporate Compliance mission to increase awareness of the Corporate Compliance program.

- Incorporated transparency to the public through the CCHHS web site through a link titled “Doing the Right Thing” thereby expanding the Corporate Compliance mission to serve as a resource to the public at large.



Work Plan Activity
Corporate Compliance and HIPAA e-Learning

Status: Project initiated

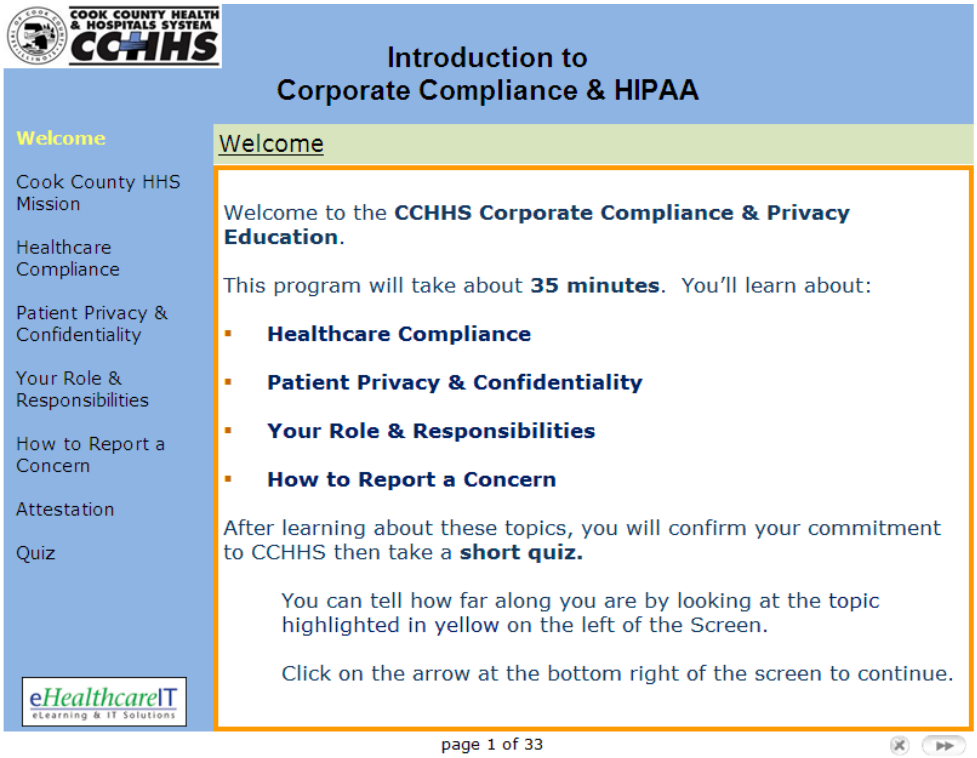
Board Action: No action required – awareness

Summary

- Corporate Compliance education is recognized as a significant element of a Compliance Program. In February 1998, the federal government, through the Department of Health and Human Services, Office of Inspector General, published Compliance Program Guidance for Hospitals.[1] In the Guidance, the OIG identified "Effective Training and Education" as a key element to an effective compliance program. Appropriate training and education was reiterated in the OIG's Supplemental Compliance Program Guidance for Hospitals in January, 2005.[2]

- Implementation of Corporate Compliance and Patient Privacy (HIPAA) education through an electronic learning management platform has commenced.

- The use of an electronic learning management platform will provide, for the first time, clear monitoring and tracking of not only Corporate Compliance and HIPAA education but all County Curriculum.



[1] Federal Register, Vol. 63, No. 35, Monday, February 23, 1998, Department of Health and Human Services, Office of Inspector General, Publication of the OIG Compliance Program Guidance for Hospitals.

[2] Federal Register, Vol. 70, No. 19, Monday, January 31, 2005, Department of Health and Human Services, Office of Inspector General, OIG Supplemental Compliance Program Guidance for Hospitals.

Work Plan Activity
Infrastructure

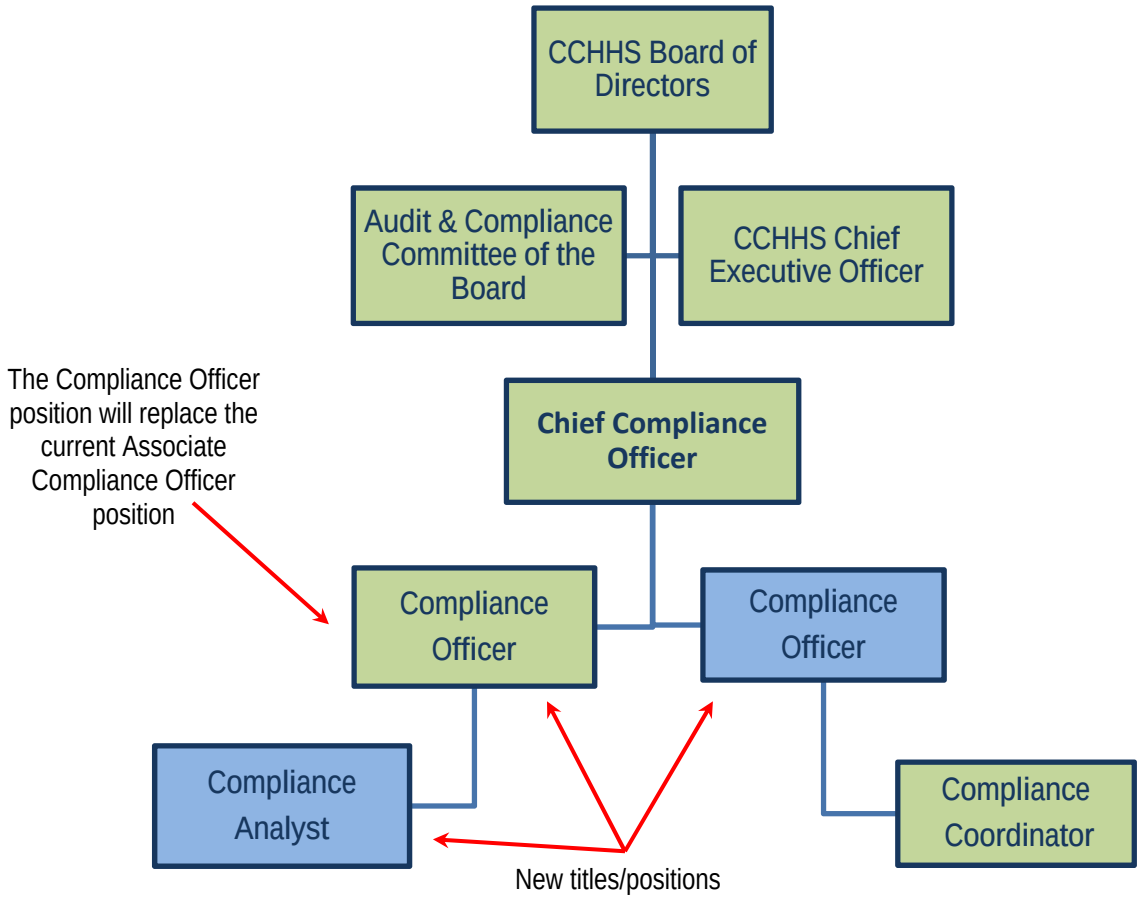
Status: Initiated

Board Action: No action required – awareness

Summary

- The existing departmental structure was examined, reviewing both the internal and external environment.

- Modifications are necessary to continue to fulfill the needs of a Healthcare System.



ATTACHMENT #2

Internal Audit Report

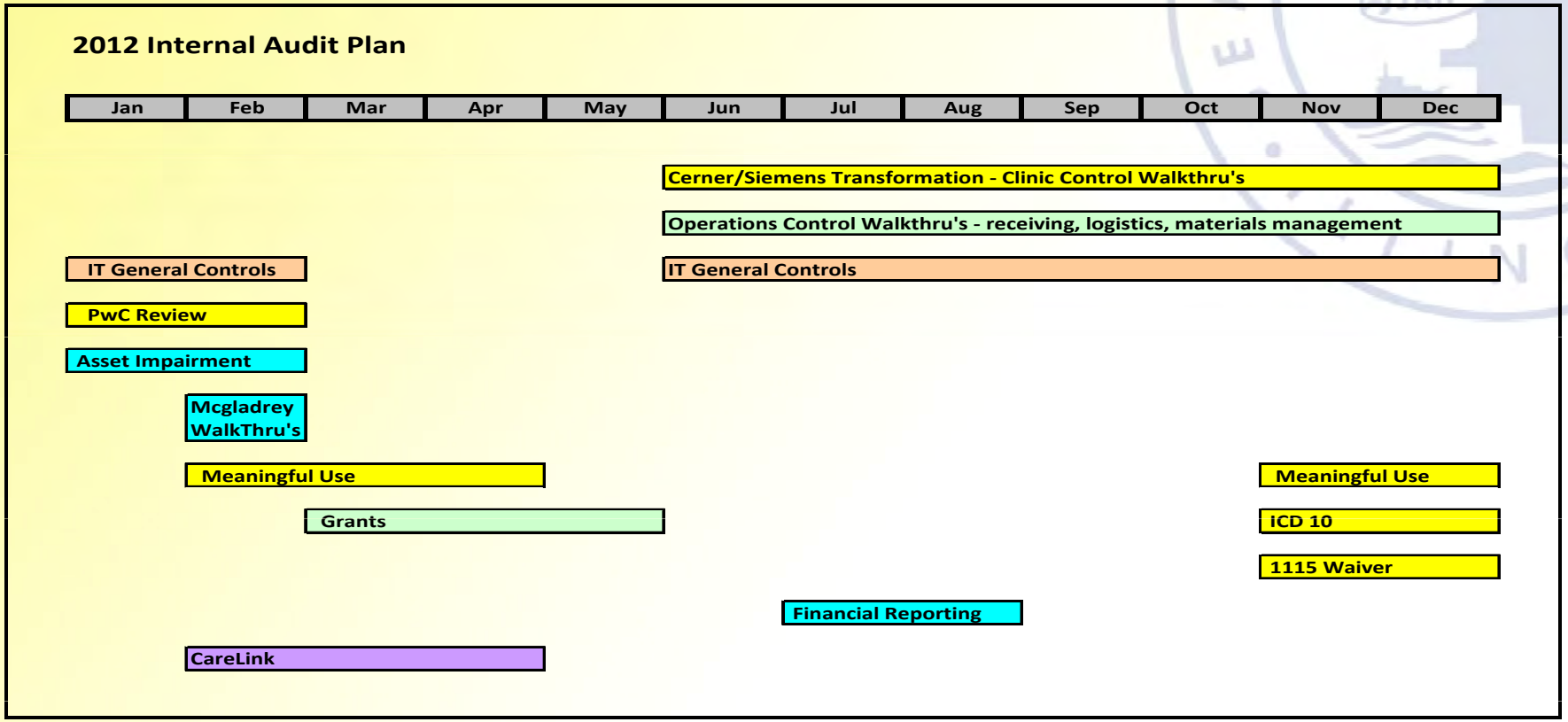
March 6, 2012

Objective

> To review 2012 Internal Audit Plan

> Closed Session

2012 Internal Audit Plan



Primary Functional Areas:	
	Cross functional - two or more functions; revenue cycle, IT, clinical, ops
	IT
	Operations
	Finance
	Revenue Cycle

ATTACHMENT #3

McGladrey & Pullen, LLP

One South Wacker Drive, Suite 800
Chicago, Illinois 60606
O 312.384.6000 F 312.634.3410
www.mcgladrey.com

March 6, 2012

Audit and Compliance Committee
Cook County Health and Hospitals System
1900 West Polk Street
Chicago, Illinois 60612

Attention: Dr. Luis Munoz, Chairman

This letter is intended to communicate certain matters related to the planned scope and timing of our audit of Cook County Health and Hospitals System's (CCHHS) financial statements as of and for the year ended November 30, 2011.

Communication

Effective two-way communication between our Firm and the Audit and Compliance Committee is important to understanding matters related to the audit and in developing a constructive working relationship.

Your insights may assist us in understanding CCHHS and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate with us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud, or any concerns you may have about the integrity or competence of senior management.

We will timely communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, illegal acts that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, without our permission no partner or professional employee of McGladrey & Pullen, LLP is permitted to own any direct financial interest or a material indirect financial interest in a client or any affiliates of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with Firm policy. In addition, our policies restrict certain non-audit services that may be provided by McGladrey & Pullen, LLP and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

The Audit Planning Process

Our audit approach places a strong emphasis on obtaining an understanding of how CCHHS functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of CCHHS. The development of a specific audit plan will begin by meeting with you and with management to obtain an understanding of CCHHS's objectives, strategies, risks, and performance.

We will obtain an understanding of internal control to assess the impact of internal control on determining the nature, timing and extent of audit procedures, and we will establish an overall materiality limit for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

We will use this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by CCHHS's internal control).

We will then determine the nature, timing and extent of tests of controls and substantive procedures necessary given the risks identified and the controls as we understand them.

The Concept of Materiality in Planning and Executing the Audit

In planning the audit, the materiality limit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause us to modify our opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform you of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

Our Approach to Internal Control Relevant to the Audit

Our audit of the financial statements will include obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Our review and understanding of CCHHS's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

We will issue a report on internal control related to the financial statements. This report describes the scope of testing of internal control and the results of our tests of internal controls. Our report on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with the requirements of the Government Auditing Standards issued by the Comptroller General of the United States.

Using the Work of Internal Auditors

As part of our understanding of internal control, we will obtain and document an understanding of your internal audit function. We will read relevant internal audit reports issued during the year to determine whether such reports indicate a source of potential error or fraud that would require a response when designing our audit procedures. Because internal auditors are employees, they are not independent and their work can never be substituted for the work of the external auditor. We may, however, alter the nature, timing, and extent of our audit procedures, based upon the results of the internal auditor's work or use them to provide direct assistance to us during the performance of our audit.

Timing of the Audit

We have scheduled preliminary audit field work in February 2012 with final fieldwork commencing the week of February 27, 2012. Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to Cook County Health and Hospitals System.

This communication is intended solely for the information and use of Audit and Compliance Committee and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McGladrey & Pullen, LLP

Patrick J. Kitchen
Partner

Presentation to the Audit and Compliance Committee

McGladrey & Pullen, LLP
March 6, 2012

McGladrey

McGladrey & Pullen, LLP
Certified Public Accountants

Discussion Outline

- Required Communications Letter
- Audit Approach and Plan
- Significant Risk/Focus Areas
- Audit Timetable
- Audit Progress

Audit Approach and Plan

- Risk-based audit approach
  - Identify fraud and control environment risk factors
  - Focus on areas that contribute to increased risk of material financial statement misstatement
    - Key business cycles and processes
    - Significant judgments and estimates
    - Significant accounting policies
    - Material events and transactions
  - Preliminary risk assessments updated during and at the completion of our audit

Significant Risk/Focus Areas

- Significant risk areas
  - Net patient service revenue
  - Patient accounts receivable and related contractual and bad debt allowances
  - Third-party reimbursement and related settlement assets and liabilities
- Focus areas where we will be relying on testing performed by the County external audit team
  - Cash and investments
  - Payroll expenses and liabilities
  - Capital assets
  - Self-insurance liabilities
  - Debt
  - Pension liabilities

Audit Timetable

Task	Month				
	Jan	Feb	Mar	Apr	May
Audit planning and risk assessment					
Jointly establish engagement goals and objectives					
Assess risk, document, and evaluate internal controls					
Meet with management to enhance understanding of business, financial, and operating activities					
Document audit plan and risk assessment					
Develop schedule of requested assistance					
Present audit plan to Audit and Compliance Committee					
Preliminary audit work					
Test internal controls					
Document understanding of general computer controls					
Perform existence testing of patient accounts receivable					
Final audit work					
County finalizes accounting records					
Test year-end account balances					
Perform final substantive analytical review procedures					
Reporting					
Review draft financial statements with CCHHS management					
Provide preliminary draft financial statements to County					
Present audit results and draft financial statements to Audit and Compliance Committee					
Finalize financial statements and other reporting, including management letter					

McGladrey

Audit Progress to Date

- Status of audit planning and preliminary work
  - Walk-throughs and internal control understanding documentation areas nearing completion:
    - Accounts payable/purchasing
    - Treasury
    - Payroll
    - Capital assets
    - Patient accounts receivable/revenue
- Final fieldwork began on February 27
- Key reporting dates
  - Draft financials available for review by management
    - March 30, 2012
  - Preliminary draft financials provided to County
    - April 6, 2012

McGladrey